Idaho Economic Forecast

The following tables and text are taken from the

January 2003 *Idaho Economic Forecast*,

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Division of Financial Management.

EXECUTIVE SUMMARY

In the past, Idaho's economy has been described as the caboose of a long train. For years this was an apt description because the state's economy was usually the last to slow down in a national business contraction and the last to move during an expansion. Because of the state's relatively heavy resource base, it traditionally took awhile for the ripple effects of weak demand to be felt locally. Ironically, it is the state's dependency on high-tech manufacturing that has caused it to suffer from the start of the 2001 recession. High-tech manufacturing declined 0.8% in 2001 and an estimated 10.3% in 2002. Idaho total nonfarm employment dropped an estimated 0.3% in 2002. The reason high-tech is suffering more than in the previous recession is because the train cars have been rearranged. Instead of being caused by the traditional drop in consumer spending, the 2001 recession reflected a collapse in business investment. Idaho's high-tech sector is coupled directly to this car, so the impact of the collapse on Idaho was almost immediate. This also infers the high-tech sector will move forward again once the nation's investment engine picks up steam. The good news is it is already showing signs of leaving the station. Real investments in computers and software have experienced strong gains recently. Of course, there is still a lag between when national investment recovers and local high-tech employment improves. The current schedule shows the high-tech sector is back on track in the second half of this year. The anticipated growth in the high-tech sector should help lift the state out of its economic funk. It is estimated Idaho nonfarm employment shrank 0.3% in 2002 and real personal income rose 1.8% in 2001. Idaho nonfarm employment is forecast to rise 0.9% this year, 1.9% next year, 2.4% in 2005, and 3.3% in 2006. The accelerating employment growth will have a positive impact on real Idaho personal income. This measure is forecast to rise 2.3% in 2003, 3.3% in 2004, 3.5% in 2005, and 4.1% in 2006.

The economy is fundamentally sound, but is not performing to satisfaction. Namely, real output seems to be moving along, but the lack of job growth is frustrating. Real GDP advanced for a year, but the nation's nonfarm payroll has decreased during this same period. In November 2002, the U.S. civilian unemployment rate stood at 6.0%--four-tenths of a percentage point higher than in November 2001. In order for the unemployment rate to start falling, businesses need to add about 100,000 jobs a month. This begs the question: When will companies begin hiring? Hiring should resume en force when companies are convinced of the recovery. This should take place in the second half of this year. In the third quarter of 2003, hiring should accelerate to above 3.0% and the unemployment should drop further. After that, the unemployment rate should fall steadily to its full-employment threshold. A key feature of the current U.S. economic forecast is the assumption that Congress will pass the President's tax relief package in early 2003. With this added stimulus, real GDP is expected to increase 2.9% this year and 4.5% next year. Both estimates are about three-tenths of a percentage point higher than in the previous forecast. The stimulus wears off over the length of the forecast period, however. The current forecast also assumes the Federal Reserve will not loosen further. Instead, it will take a wait-and–see position to determine if the economy gets through this soft patch without further interest rate tax cuts. Nationally, real GDP is projected to increase 2.9% in 2003, 4.5% in 2004, 3.7% in 2005, and 3.4% in 2006. And employment will begin growing once again. Specifically, nonfarm employment is forecast to grow 0.8% this year, 2.5% next year, 1.9% in 2005, and 1.2% in 2006. This will be a welcome relief compared to the job-growth drought of 2001-2002.

IDAHO ECONOMIC FORECAST
EXECUTIVE SUMMARY
JANUARY 2003

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
GDP (BILLIONS)										
Current $	8,318	8,782	9,274	9,825	10,082	10,444	10,969	11,744	12,447	13,114
% Ch	*6.5%*	*5.6%*	*5.6%*	*5.9%*	*2.6%*	*3.6%*	*5.0%*	*7.1%*	*6.0%*	*5.4%*
1996 Chain-Weighted	8,159	8,509	8,859	9,191	9,215	9,435	9,707	10,142	10,516	10,873
% Ch	*4.4%*	*4.3%*	*4.1%*	*3.8%*	*0.3%*	*2.4%*	*2.9%*	*4.5%*	*3.7%*	*3.4%*
PERSONAL INCOME - CURR $										
Idaho (Millions)	25,227	27,066	28,931	31,314	32,525	33,891	35,387	37,436	39,591	42,011
% Ch	*4.4%*	*7.3%*	*6.9%*	*8.2%*	*3.9%*	*4.2%*	*4.4%*	*5.8%*	*5.8%*	*6.1%*
Idaho Nonfarm (Millions)	24,557	26,149	27,901	30,519	31,562	32,811	34,254	36,176	38,297	40,747
% Ch	*5.4%*	*6.5%*	*6.7%*	*9.4%*	*3.4%*	*4.0%*	*4.4%*	*5.6%*	*5.9%*	*6.4%*
U.S. (Billions)	6,937	7,426	7,786	8,407	8,685	8,944	9,362	9,956	10,550	11,131
% Ch	*6.0%*	*7.0%*	*4.9%*	*8.0%*	*3.3%*	*3.0%*	*4.7%*	*6.4%*	*6.0%*	*5.5%*
PERSONAL INCOME - 1996 $										
Idaho (Millions)	24,745	26,268	27,622	29,158	29,686	30,507	31,208	32,241	33,375	34,744
% Ch	*2.4%*	*6.2%*	*5.2%*	*5.6%*	*1.8%*	*2.8%*	*2.3%*	*3.3%*	*3.5%*	*4.1%*
Idaho Nonfarm (Millions)	24,088	25,379	26,639	28,418	28,807	29,535	30,209	31,156	32,284	33,699
% Ch	*3.4%*	*5.4%*	*5.0%*	*6.7%*	*1.4%*	*2.5%*	*2.3%*	*3.1%*	*3.6%*	*4.4%*
U.S. (Billions)	6,805	7,208	7,435	7,828	7,927	8,051	8,256	8,575	8,894	9,206
% Ch	*3.9%*	*5.9%*	*3.2%*	*5.3%*	*1.3%*	*1.6%*	*2.6%*	*3.9%*	*3.7%*	*3.5%*
HOUSING STARTS										
Idaho	8,865	10,114	10,348	11,534	12,262	12,060	11,205	10,886	11,081	11,342
% Ch	*-3.8%*	*14.1%*	*2.3%*	*11.5%*	*6.3%*	*-1.6%*	*-7.1%*	*-2.9%*	*1.8%*	*2.4%*
U.S. (Millions)	1.475	1.621	1.647	1.573	1.603	1.683	1.581	1.670	1.702	1.694
% Ch	*0.4%*	*9.9%*	*1.6%*	*-4.5%*	*1.9%*	*5.0%*	*-6.1%*	*5.7%*	*1.9%*	*-0.5%*
TOTAL NONFARM EMPLOYMENT										
Idaho (Thousands)	508.7	521.5	539.1	559.2	568.3	566.5	571.4	582.0	595.8	615.4
% Ch	*3.3%*	*2.5%*	*3.4%*	*3.7%*	*1.6%*	*-0.3%*	*0.9%*	*1.9%*	*2.4%*	*3.3%*
U.S. (Millions)	122.7	125.9	128.9	131.7	131.9	130.8	131.9	135.1	137.7	139.5
% Ch	*2.6%*	*2.6%*	*2.4%*	*2.2%*	*0.2%*	*-0.8%*	*0.8%*	*2.5%*	*1.9%*	*1.2%*
SELECTED INTEREST RATES										
Federal Funds	*5.5%*	*5.4%*	*5.0%*	*6.2%*	*3.9%*	*1.7%*	*1.7%*	*3.3%*	*4.2%*	*4.9%*
Bank Prime	*8.4%*	*8.4%*	*8.0%*	*9.2%*	*6.9%*	*4.7%*	*4.7%*	*6.3%*	*7.2%*	*7.9%*
Existing Home Mortgage	*7.7%*	*7.1%*	*7.3%*	*8.0%*	*7.0%*	*6.5%*	*6.3%*	*7.5%*	*7.8%*	*7.8%*
INFLATION										
GDP Price Deflator	*1.9%*	*1.2%*	*1.4%*	*2.1%*	*2.4%*	*1.2%*	*2.1%*	*2.5%*	*2.2%*	*1.9%*
Personal Cons Deflator	*1.9%*	*1.1%*	*1.6%*	*2.5%*	*2.0%*	*1.4%*	*2.1%*	*2.4%*	*2.2%*	*1.9%*
Consumer Price Index	*2.3%*	*1.5%*	*2.2%*	*3.4%*	*2.8%*	*1.6%*	*2.3%*	*2.5%*	*2.4%*	*2.2%*

National Variables Forecast by GLOBAL INSIGHT
Forecast Begins the THIRD Quarter of 2002

IDAHO ECONOMIC FORECAST

EXECUTIVE SUMMARY

JANUARY 2003

	2003				2004				2005			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP (BILLIONS)												
Current $	10,728	10,876	11,044	11,229	11,461	11,657	11,842	12,015	12,208	12,368	12,524	12,688
% Ch	*5.5%*	*5.6%*	*6.3%*	*6.9%*	*8.5%*	*7.0%*	*6.5%*	*5.9%*	*6.6%*	*5.4%*	*5.2%*	*5.3%*
1996 Chain-Weighted	9,575	9,654	9,746	9,853	9,988	10,098	10,196	10,287	10,390	10,473	10,554	10,645
% Ch	*3.2%*	*3.3%*	*3.9%*	*4.5%*	*5.6%*	*4.5%*	*3.9%*	*3.6%*	*4.0%*	*3.3%*	*3.1%*	*3.5%*
PERSONAL INCOME - CURR $												
Idaho (Millions)	34,786	35,177	35,608	35,977	36,516	37,164	37,805	38,260	38,774	39,373	39,872	40,344
% Ch	*4.2%*	*4.6%*	*5.0%*	*4.2%*	*6.1%*	*7.3%*	*7.1%*	*4.9%*	*5.5%*	*6.3%*	*5.2%*	*4.8%*
Idaho Nonfarm (Millions)	33,656	34,022	34,461	34,877	35,415	35,932	36,427	36,930	37,489	38,042	38,547	39,110
% Ch	*4.7%*	*4.4%*	*5.3%*	*4.9%*	*6.3%*	*6.0%*	*5.6%*	*5.6%*	*6.2%*	*6.0%*	*5.4%*	*6.0%*
U.S. (Billions)	9,190	9,292	9,415	9,550	9,723	9,886	10,038	10,178	10,340	10,487	10,617	10,757
% Ch	*5.8%*	*4.5%*	*5.4%*	*5.8%*	*7.5%*	*6.9%*	*6.3%*	*5.7%*	*6.5%*	*5.8%*	*5.1%*	*5.4%*
PERSONAL INCOME - 1996 $												
Idaho (Millions)	30,948	31,129	31,314	31,442	31,724	32,105	32,468	32,670	32,933	33,269	33,527	33,770
% Ch	*2.6%*	*2.4%*	*2.4%*	*1.6%*	*3.6%*	*4.9%*	*4.6%*	*2.5%*	*3.3%*	*4.1%*	*3.1%*	*2.9%*
Idaho Nonfarm (Millions)	29,942	30,108	30,305	30,481	30,768	31,040	31,284	31,534	31,842	32,145	32,412	32,737
% Ch	*3.1%*	*2.2%*	*2.7%*	*2.3%*	*3.8%*	*3.6%*	*3.2%*	*3.2%*	*4.0%*	*3.9%*	*3.4%*	*4.1%*
U.S. (Billions)	8,176	8,222	8,280	8,346	8,447	8,540	8,621	8,691	8,782	8,861	8,927	9,004
% Ch	*4.1%*	*2.3%*	*2.8%*	*3.2%*	*4.9%*	*4.5%*	*3.8%*	*3.3%*	*4.3%*	*3.6%*	*3.0%*	*3.5%*
HOUSING STARTS												
Idaho	11,566	11,369	11,064	10,823	10,868	10,873	10,889	10,912	10,979	11,037	11,120	11,186
% Ch	*-9.1%*	*-6.6%*	*-10.3%*	*-8.4%*	*1.7%*	*0.2%*	*0.6%*	*0.8%*	*2.5%*	*2.2%*	*3.0%*	*2.4%*
U.S. (Millions)	1.593	1.572	1.571	1.586	1.632	1.674	1.677	1.697	1.701	1.704	1.703	1.702
% Ch	*-11.1%*	*-5.1%*	*-0.3%*	*3.9%*	*12.1%*	*10.5%*	*0.8%*	*4.9%*	*0.8%*	*0.8%*	*-0.3%*	*-0.1%*
TOTAL NONFARM EMPLOYMENT												
Idaho (Thousands)	568.0	569.9	572.5	575.2	577.7	580.2	583.4	586.8	590.2	593.9	597.7	601.6
% Ch	*0.4%*	*1.3%*	*1.9%*	*1.8%*	*1.8%*	*1.7%*	*2.2%*	*2.3%*	*2.4%*	*2.5%*	*2.6%*	*2.6%*
U.S. (Millions)	131.1	131.5	131.9	132.9	133.9	134.8	135.6	136.3	137.0	137.5	138.0	138.5
% Ch	*0.6%*	*1.0%*	*1.3%*	*3.1%*	*3.0%*	*2.5%*	*2.4%*	*2.3%*	*1.9%*	*1.6%*	*1.4%*	*1.4%*
SELECTED INTEREST RATES												
Federal Funds	*1.3%*	*1.3%*	*1.9%*	*2.3%*	*2.7%*	*3.2%*	*3.5%*	*3.8%*	*4.0%*	*4.0%*	*4.3%*	*4.5%*
Bank Prime	*4.3%*	*4.3%*	*4.9%*	*5.3%*	*5.7%*	*6.2%*	*6.5%*	*6.8%*	*7.0%*	*7.0%*	*7.3%*	*7.5%*
Existing Home Mortgage	*6.0%*	*5.9%*	*6.4%*	*6.9%*	*7.1%*	*7.4%*	*7.6%*	*7.8%*	*7.8%*	*7.8%*	*7.7%*	*7.7%*
INFLATION												
GDP Price Deflator	*2.2%*	*2.2%*	*2.4%*	*2.3%*	*2.7%*	*2.5%*	*2.5%*	*2.2%*	*2.5%*	*2.0%*	*2.0%*	*1.8%*
Personal Cons Deflator	*1.6%*	*2.2%*	*2.5%*	*2.5%*	*2.4%*	*2.3%*	*2.4%*	*2.3%*	*2.1%*	*2.1%*	*2.0%*	*1.8%*
Consumer Price Index	*2.0%*	*2.2%*	*2.6%*	*2.5%*	*2.4%*	*2.5%*	*2.6%*	*2.5%*	*2.3%*	*2.3%*	*2.2%*	*2.0%*

National Variables Forecast by GLOBAL INSIGHT
Forecast Begins the THIRD Quarter of 2002

NATIONAL FORECAST DESCRIPTION

The Forecast Period is the Third Quarter of 2002 through the Fourth Quarter of 2006

Federal Reserve Chairman Alan Greenspan recently described the U.S. economy was in a "soft spot." This implies that the economy is fundamentally sound, but is not performing to satisfaction. Namely, real output seems to be moving along, but the lack of job growth is frustrating. Real GDP advanced at a 4.0% annual rate in the third quarter of 2002—its fourth uninterrupted quarter of growth. In contrast, the nation's nonfarm payroll has decreased during this same period. In November 2002, the U.S. civilian unemployment rate stood at 6.0%--four-tenths of a percentage point higher than in November 2001. Unfortunately, the unemployment rate will likely rise further. This is the classic relationship between output and employment. Employment lags output because businesses are hesitant to add to payrolls until they are sure the economy on solid footing. In order for the unemployment rate to start falling, businesses need to add about 100,000 jobs a month.

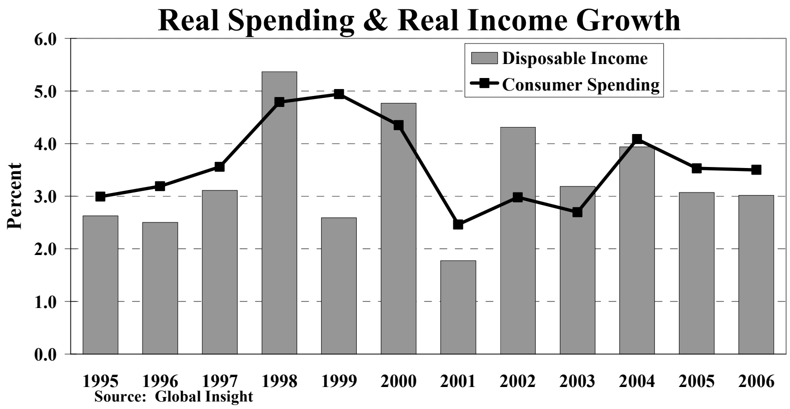
This begs the question: When will companies begin hiring? After all, the recession probably ended almost a year ago. (At the time of this writing the National Board of Economic Research had not officially declared the recession ended.) As was mentioned above, hiring will resume en force when companies are convinced of the recovery. This should take place in the second half of this year. Nonfarm employment is forecast to grow over one percent in the third quarter of this year for the first time since the second quarter of 2000. This should nudge the U.S. civilian unemployment rate down slightly. In the third quarter of 2003, hiring should accelerate to above 3.0% and the unemployment should drop further. After that, the unemployment rate should fall steadily to its full-employment threshold.

A key feature of the current U.S. economic forecast is the assumption that Congress will pass the President's tax relief package in early 2003. Global Insight assumes the package is worth $45 billion in its first year, comprised of a mix of cuts in personal income taxes. Elimination of the personal tax on dividends could well account for half, with acceleration of some already-scheduled changes accounting for the rest. With this added stimulus, real GDP is expected to increase 2.9% this year and 4.5% next year. Both estimates are about three-tenths of a percentage point higher than in the previous forecast. The stimulus wears off over the length of the forecast period, however.

It is also assumed in this forecast the Federal Reserve will not loosen further. After displaying unusual generosity in November 2002 by cutting its federal funds rate by one-half percentage point, the nation's central bank passed on a chance to loosen further during its December 2002 meeting. It is taking a wait-and–see position to determine if the economy gets through this soft patch without further interest rate tax cuts. Another reason the Federal Reserve is being cautious is because with rates already so low, it is running out of options. The rate cannot be lowered below 0.0%. This forecast assumes the economy, with the help of an accommodative fiscal policy, should pick up speed in the second half of this year. Therefore, further cuts by the nation's central bank will be unnecessary in the near future.

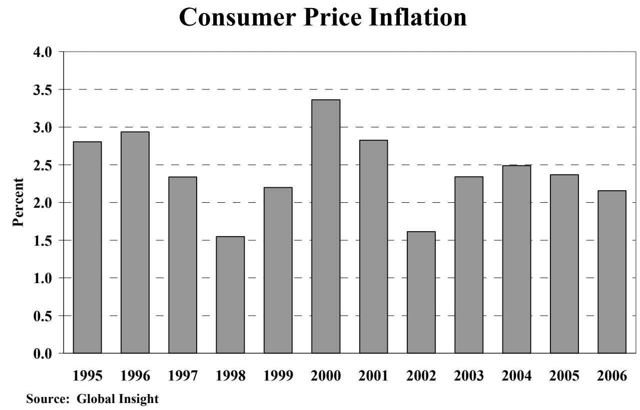
Nationally, real GDP is projected to increase 2.9% in 2003, 4.5% in 2004, 3.7% in 2005, and 3.4% in 2006. And employment will begin growing once again. Specifically, nonfarm employment is forecast to grow 0.8% this year, 2.5% next year, 1.9% in 2005, and 1.2% in 2006. This will be a welcome relief compared to the job-growth drought of 2001-2002.

SELECTED NATIONAL ECONOMIC INDICATORS

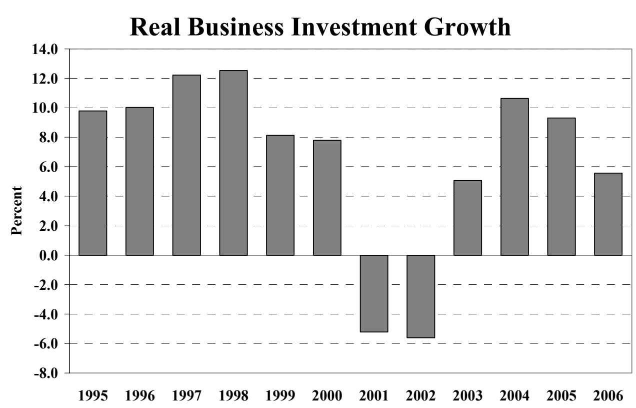


Consumer Spending: American consumers have been the economy's heroes during the recent slowdown. Thanks to their resilience and continuous spending, the recession should be one of the mildest on record. Their performance also marks a historical departure. Traditionally, it is weak consumer spending that leads to a recession. One need only look back to the early 1990s for a classic example. The U.S. suffered a recession in 1990-91. Real GDP declined nearly 1.5% over the three quarters of decline. Interestingly, real consumer spending dropped for just two quarters, but the total decline was almost as great (1.3%) as the decline in total output. A look at how this drop was distributed among its major components reveals a pattern that is close to the historical norm. Real spending on durable goods was hardest hit. It went into reverse for a whole year and declined 10.8% from its peak to trough. This is typical behavior because consumers can postpone purchasing big-ticket items, such as automobiles and major appliances, until their finances improve. Consumers have less leeway with nondurable items or services. For example, one can put off a trip to the grocery store or the dentist for only so long. These two sectors are also much larger than the durable goods sector, so they are weighted more heavily in aggregate spending. During the last recession, real nondurable spending fell just 1.4% and services spending declined just 0.25%. The 2001 recession also lasted three quarters, and that is the most it had in common with the 1990-91 recession. Real output dropped just 0.6% in the 2001 recession, versus 1.5% in the previous downturn. A major reason for this difference is real consumer spending did not decline during the most recent recession. From the last quarter of 2000 to the third quarter of 2001, real consumer spending actually increased 1.3%. The usual dip in durable goods spending never occurred. Instead, it increased 5.3%. And it has continued to increase. Part of the continued durable spending growth reflects the healthy housing market. Soon after a home is purchased, most new owners shop for items to personalize their new abode. In addition, the lowest mortgage interest rates in a generation have led to a refinancing stampede. This is also a boon to spending because consumers "cashing out" a part of the new loan or lower monthly payments of new loans provide incentive to spend. But even the record low mortgage rates pale in comparison to interest rates available to automobile purchasers. Zero-percent financing caused vehicle purchases to soar. While these factors helped make the most recent slowdown mild, they will also make the recovery mild. Usually, the bigger the decline in spending during a recession, the bigger the surge in spending during a recovery. This is because demand is pent up during the recession. In the most current recession, consumer spending never fell off, so there is little, if any, pent up demand to be met. Therefore, no surge in consumer spending is expected. Instead, spending should grow roughly in line with real disposable personal income. Specifically, real consumer spending is forecast to advance an average of 3.4% per year through 2006. However, it should be pointed out there will be two distinct growth periods. In the first two years growth is expected to remain under three percent, while it is above three percent in the last three years.

Inflation: The latest price data suggest the U.S. is near a point of price stability. Not since the early 1960s have the top-line measures of inflation been so low. The broadest measure of inflation available--the implicit price deflator for gross domestic product—increased 0.8% for the year ended with the third quarter of 2002, its lowest rate of change since 1961. For the 12 months ending in September 2002, the consumer price index (CPI) was up a mere 1.5%. Goods price inflation, as measured by producer price index for finished goods (PPI), actually fell in the past year. Both the CPI and PPI have occasionally dipped this low in the last four decades, most recently in 1986 when oil prices collapsed. What is different now is labor cost acceleration is also slowing. The employment cost index for private industry workers (ECI) rose 0.6% in the third quarter of 2003, about half the 1.1% rate of the previous quarter. Interestingly, the wages component of ECI was up just 0.4%, the smallest gain since the ECI began tracking wage growth in 1980. Over the last four quarters, compensation costs in the private sector have risen 3.7%, their slowest rate since late 1999. This forecast anticipates inflation bottoming out in late this year. It is unlikely to show much acceleration during 2003, however, and certainly not in the first part of the year. There are three reasons for this: ample capacity, sluggish job growth, and falling energy prices. Domestically, capacity utilization rates are near 74%, which is well below the 82% considered full capacity. The current forecast projects capacity utilization will improve slowly. Utilization rates should remain below 80% through 2005. Labor markets are also not expected to improve rapidly over the next couple of years, which will inhibit wage growth. Indeed, total compensation costs are forecasted to move up less than 3.5% in 2003 and 2004—a lower rate than in 2002. Lower oil prices are the third major factor limiting inflation. The $3-$5 war premium is already eroding, and fundamentals continue pointing to a price range of $21-$23 per barrel of oil over the near term. However, supply disruptions of Venezuelan oil could put upward pressure on crude oil prices. The CPI is expected to rise just 2.3% in 2003, 2.5% in 2004, 2.4% in 2005, and 2.2% in 2006.

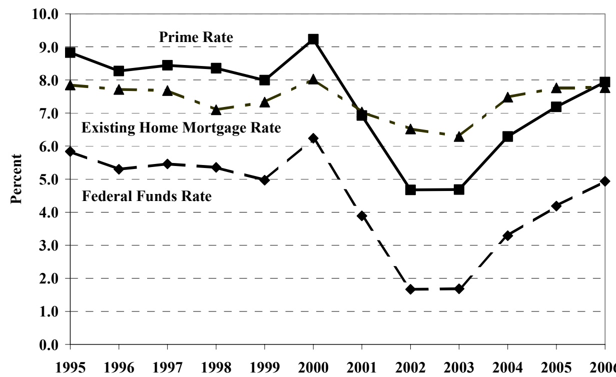


Business Investment: The collapse in real business investment is one of the main reasons for the 2001 recession and its sluggish growth has hampered the economic recovery. This sector was not always scorned. In fact, it was the darling of the economy through most of the 1990s. Fueled by the Internet gold rush, The Telecommunications Act of 1996, and Y2K fears, real business investment grew faster than real GDP in every year from 1992 to 2000. In three of those years it grew at double-digit rates. This string of growth years came to a halt in 2001, when real business investment actually declined 5.2%--its biggest drop since 1991. Unfortunately, the next year was slightly worse. It has been estimated real business investment declined another 5.6% in 2002. This decline has been frustrating because it took place at a time when the cost of borrowing was especially favorable. A couple of factors help explain why businesses have been hesitant to invest. First, given the current excess capacities in many industries, it makes no economic sense to invest in additional capacity. Second, the soft stock market restricts companies' ability to raise equity capital. Third, weak earnings also limit funding for business investment. Obviously, real business investment will not remain in reverse forever. Replacement



demand will fuel some growth and higher future earnings will boost investment. However, a return to the salad days of the late 1990s is not expected. Much of the strength during those years reflects excess investment that has resulted in today's surplus capacities. This is not a mistake companies are likely to soon repeat. It should be pointed out that some sectors are already showing signs of life. Spending on communications equipment grew through most of 2002, indicating several lines of business are doing fine, despite the implosion of the communication sectors. This reflects the strong demand for DSL and cable TV Internet connections. However, communications equipment spending should drop in the long run as a result of further consolidation in the industry. Real business investment is forecast to advance 5.1% in 2003, 10.6% in 2004, 9.3% in 2005, and 5.6% in 2006

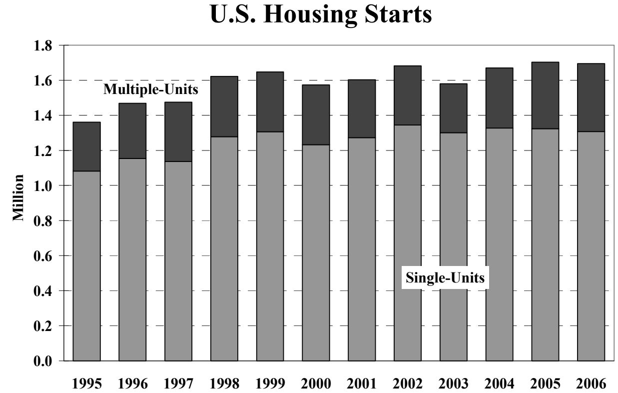
Selected Interest Rates



Source: Global Insight

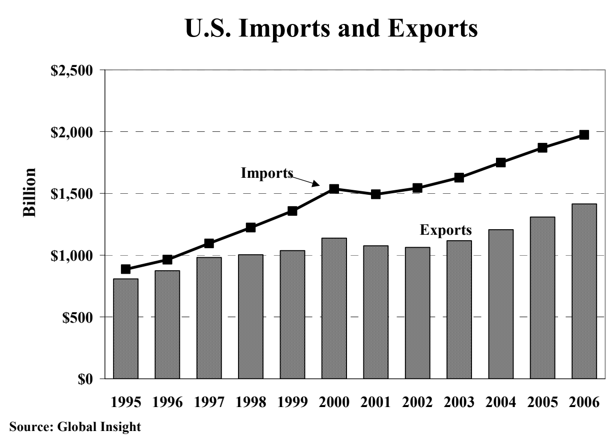
Financial: The nation's central bank is in uncharted waters. The Federal Reserve usually has the difficult task of balancing its goal of keeping prices stable without hurting the economy. It has proven to be very adept at balancing on this razor's edge. Chairman Greenspan and company have already successfully pulled off one of the most difficult policy moves in the recent past: a soft landing. Before the 2001 recession, the central bank was able to lower inflation without causing a downturn. However, current conditions have changed. First, inflation is tame. Second, instead of trying to cool an overheating economy the Federal Reserve must now jump-start the economy. The lack of inflation is welcome because it provides greater latitude for policy making. However, the current federal fund interest rate of 1.25% is limiting policy choices. The Federal Reserve has used interest rate targets as its tool of choice for meeting policy goals. However, with the federal fund rate so close to zero, it is finding its options limited. Ironically, after straddling the razor's edge so successfully, the central bank is running out razor. Because of the 6 to 12-month lag between an interest rate change and its impact on the economy, the results of this change remain to be seen. Two questions remain: What will be the Federal Reserve's next move and when will it take place? Policy makers passed on their latest opportunity to change rates during its December 10, 2002 meeting. This forecast assumes the Federal Reserve will leave rates unchanged until it is sure the economy is on solid ground, which is the second half of this year. At that time, it will begin to raise its bellwether federal funds rate. The federal funds rate is projected to average 1.68% in 2003, 3.29% in 2004, 4.19% in 2005, and 4.94% in 2006.

U.S. Housing Starts

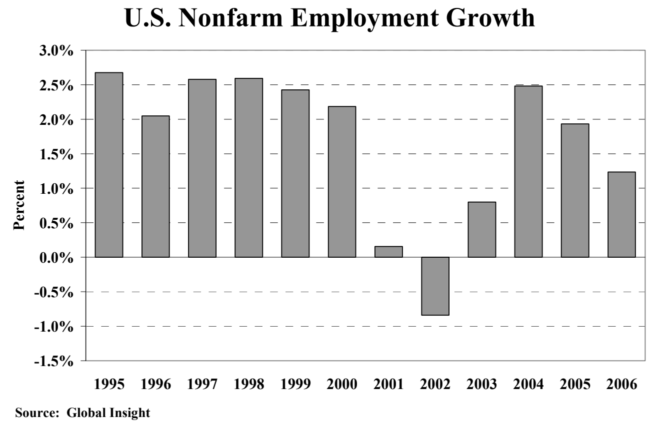


Source: Global Insight

Housing: The U.S. housing market is expected to pause in 2003 after experiencing remarkable growth in recent years. However, it is forecast to resume its upward trend after 2003. Like consumer spending, housing starts have been one of the few areas of growth during the recession. But to limit a review of housing to the period during and after the recession would short change its success because housing began growing well before that time. In fact, it started nearly a decade earlier at the end of the previous recession. Despite nearly constant warnings housing starts had already peaked, U.S. housing starts grew an average of 6.3% annually from 1991 to 1999, from just over 1 million units to almost 1.65 million units. The latter was its strongest showing since 1986. Housing starts slipped slightly in 2000, but advanced in both 2001 and 2002. There are several factors that contributed to the housing industry's success in those two years. The most obvious factor is falling mortgage interest rates. Thanks to the lowest rates in a generation, mortgage debt service's portion of disposable income has shrunken, and that has increased the affordability of home ownership. Of course, even these low interest rates would not spur growth if consumers were worried about the future. Thankfully, consumer confidence has proven resilient to the recession and the slow recovery. While confidence has declined slightly, it remains higher than during the 1990-91 recession. The housing industry has also been the beneficiary of the stock market implosion. With financial markets in retreat, real estate has proven to be a solid investment. The flurry of housing activity has made predicting its future murky. For example, the steady decline in mortgage rates may have sped up so much home buying that activity could drop sharply when rates turn up. This could happen in 2003, as the mortgage interest rates begin rising in the second half of that year. Not surprisingly, U.S. housing starts are expected to decline by about 100,000 units from 2002. Mortgage rates are anticipated to continue rising through 2006, but housing starts are projected to recover beginning in 2004. A major reason for this is nonfarm employment, which had been languishing since 2001, should advance at healthy rates. This will lift consumers' confidence. In addition, any increase in debt service due to higher interest rates is expected to be offset by growing disposable personal income. National housing starts are projected to be 1.68 million units in 2002, 1.58 million units in 2003, 1.67 million units in 2004, 1.70 million units in 2005, and 1.69 million units in 2006.



International: The global economy's mediocre recovery is running out of steam and is in need of a strong dose of policy stimulus. November 2002's 50-basis-point rate cut by the Federal Reserve was a good start. The European Central Bank's cut in its key overnight rate from 3.25% to 2.75% was a good follow up, but more is needed if the world economy is to do better than just muddle along. This will not happen until some of world's largest economies make some fundamental changes. Currently, it seems most of the world are placing bets that the U.S. economy will be able to pull them out of their dire straights. Unfortunately, the U.S. economy does not have the horsepower to carry the entire global economy, and other developed economies must do their shares. But many of these countries, such as Japan and Germany, are suffering from structural problems and they are not willing to take the steps necessary to resolve them. Japan is pursuing a weak yen policy in an attempt to export itself back to prosperity. This is the latest in a series of policies to kick-start Japan's stalled economy. It used fiscal and monetary policy to temporarily lift its economy, but long-term success remained elusive. Given current circumstances, the weak yen policy also seems doomed. This is because the yen is already weak. It has depreciated 15% over the past two years, during which time producer prices have fallen more than 5% and the equities market has declined 40%. The bottom line is Japanese assets and goods are already bargain-priced to foreign buyers. Japan will be stuck with economic malaise until it takes the bitter pill of structural reform. Germany is not in a position to pursue a weak euro policy, but is still looking for at least a temporary boost. But Germany has other problems. Once the world's epitome and chief proponent of fiscal restraint, it has been warned by the European Union about the size of its budget deficit. Recently, Germany has pushed back its goal of eliminating its deficit by 2004. Instead, it will attempt to do achieve a balanced budget by 2006. Meanwhile, Germany is at risk of exceeding the 3% of GDP ceiling allowed for its budget deficit. Germany has also been called on to reduce its persistently high unemployment rate and regional disparities in its unemployment rates. To do this, Germany must reform its current benefit system to make it more worthwhile for the unemployed to take work, to tackle the other incentives to labor market inactivity, and to deregulate its product and labor markets.



Employment: A full year after real output has resumed growing, nonfarm employment remains in the doldrums. Those hoping for a quick resolution to this problem will be disappointed. The latest blow came in the form of the November 2002 employment numbers. According to the U.S. Department of Labor, the U.S. unemployment rate jumped three-tenths of a percentage point to 6.0% from October 2002 to November 2002. Other evidence of the weak employment situation was the nearly 40,000 decline in nonfarm jobs during this same period. This drop came to a surprise to many economists who were expecting a small increase in the number of jobs. Not all the news was bad. The number of initial claims for jobless benefits declined by 13,000 in November 2002. Unfortunately, it appears the employment situation will worsen before it improves. While frustrating, the softness in employment is typical after a recession. Until businesses are certain demand for their products are solid, they will be hesitant to expand their payrolls. Instead, they will use other measures, such as increased overtime, to meet rising demand in the short run. It is only after all these measures have been tapped that employment will grow. It has been estimated the economy must provide around 100,000 jobs per month in order for the nation's unemployment rate to fall. Unfortunately, this is not expected until late 2003. Specifically, the first time nonfarm employment growth is expected to reach the 100,000 threshold is in the last quarter of 2003. As a result, the U.S. civilian unemployment rate is projected to remain near 6.0% until that time. Nonfarm employment is forecast to increase 0.8% in 2003, 2.5% in 2004, 1.9% in 2005, and 1.2% in 2006. This should cause the nation to move closer to full employment over the next few years. Most of the new jobs created will be in the services-producing sector. In fact the goods-producing sector is not expected to post an employment increase until 2004. If this forecast holds true, this sector would have experienced job losses before the overall economy and be the last sector to enjoy increases during the recovery. This sector's sluggishness is largely attributed to its manufacturing component. A look at historical employment numbers shows how hard manufacturing has been hit. Manufacturing began shedding jobs in the third quarter of 2000, about a year before the economy slipped into a recession. This situation is not expected to improve until the end of this year. From its peak to trough, manufacturing is estimate to have lost 2.5 million jobs, or 13.3% of its employment base. Unfortunately, this cumulative job loss is not expected to be made up over the forecast period.

IDAHO FORECAST DESCRIPTION

The Forecast Period is the Third Quarter of 2002 through the Fourth Quarter of 2006

In the past, Idaho's economy has been described as the caboose of a long train. For years this was an apt description because the state's economy was usually the last to slow down in a national business contraction and the last to move during an expansion. Because of the state's relatively heavy resource base, it traditionally took awhile for the ripple effects of weak demand to be felt locally. On the other hand, it also took longer to feel the effects of growing demand. No analogy is perfect, but this one seemed to capture the link between the state and national economies reasonably well for a long time.

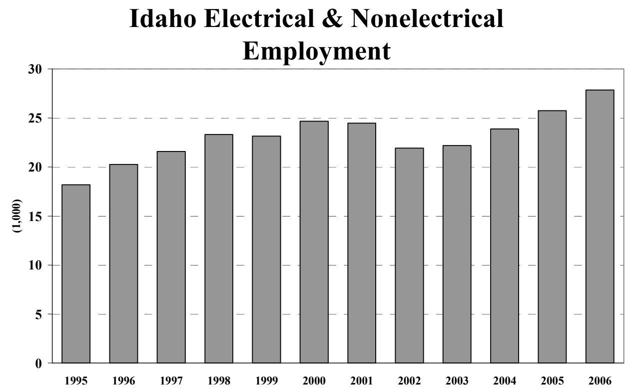
This railroad metaphor was put to the test during the 1990-91 recession, however. The national slowdown had all the classic traits. Shaken consumers curbed spending, which caused output to nosedive. Faced with softer demand, U.S. companies shed jobs. In 1991, nonfarm employment shrank 1.4% in 1991 and grew a meager 0.3% in 1992 and 1.9% in 1993. Here is where the traditional railroad comparison breaks down. Idaho nonfarm employment never stopped growing during this period. In 1991 alone, it advanced a healthy 3.3%--and this was its low point. It accelerated in each of the next three years growing by an astounding 5.6% in 1994. To salvage the train analogy, it was as if Idaho's economy had decoupled, jumped onto another track, and was a runaway north.

Idaho's success during that period was due in large part to its economic transformation. From being almost nonexistent in the early 1970s, the state's high-tech sector was becoming a major player by the 1990s. For example, this sector, which accounted for just 3.0% of manufacturing employment in 1970, was the largest manufacturing employer by 1995 and accounted for over 25.0% of manufacturing employment. This worked to the state's advantage during the 1990-91 recession because the state's high-tech sector was producing a mix of goods that was in demand during the nation's business investment boom. The state also grew with the flood of newcomers arriving in the 1990s in the hope of improving their economic situation.

Ironically, it is the state's dependency on high-tech manufacturing that has caused it to suffer from the start of the 2001 recession. High-tech manufacturing declined 0.8% in 2001 and an estimated 10.3% in 2002. Idaho total nonfarm employment dropped an estimated 0.3% in 2002. The reason high-tech is suffering more than in the previous recession is because the train cars have been rearranged. Instead of being caused by the traditional drop in consumer spending, the 2001 recession reflected a collapse in business investment. Idaho's high-tech sector is coupled directly to this car, so the impact of the collapse on Idaho was almost immediate. This also infers the high-tech sector will move forward again once the nation's investment engine picks up steam. The good news is it is already showing signs of leaving the station. Real investments in computers and software have experienced strong gains recently. Of course, there is still a lag between when national investment recovers and local high-tech employment improves. The current schedule shows the high-tech sector is back on track in the second half of this year.

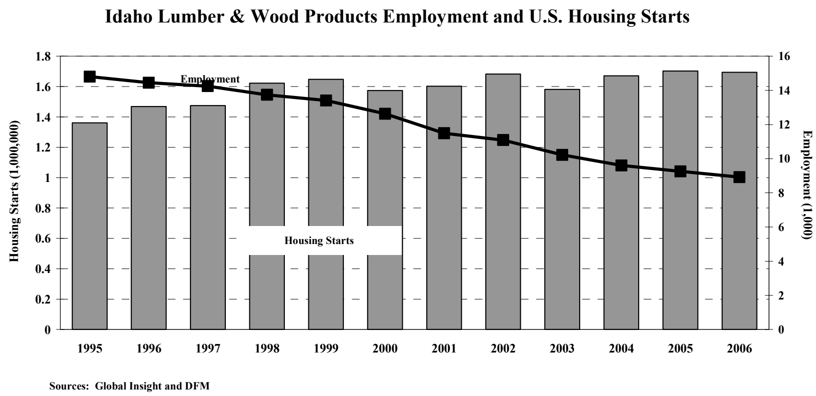
The anticipated growth in the high-tech sector should help lift the state out of its economic funk. It is estimated Idaho nonfarm employment shrank 0.3% in 2002 and real personal income rose 1.8% in 2001. Idaho nonfarm employment is forecast to rise 0.9% this year, 1.9% next year, 2.4% in 2005, and 3.3% in 2006. The accelerating employment growth will have a positive impact on real Idaho personal income. This measure is forecast to rise 2.3% in 2003, 3.3% in 2004, 3.5% in 2005, and 4.1% in 2006.

SELECTED IDAHO ECONOMIC INDICATORS

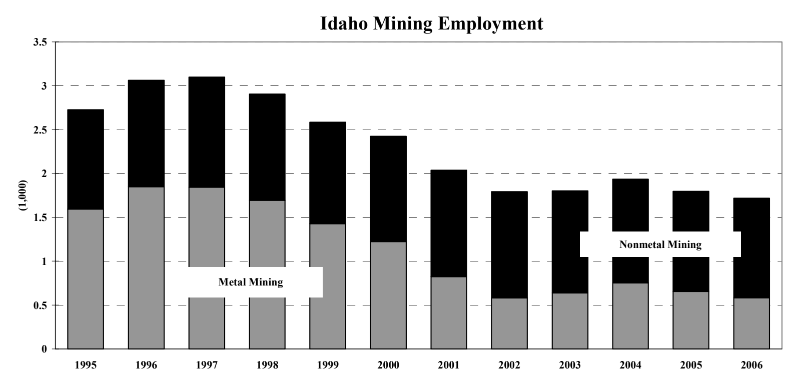


Electrical and Nonelectrical Machinery: The Gem State's high-tech sector is going through one of the toughest periods of its existence. Compared to the resource-based sectors, Idaho's high-tech sector is relatively young. According to historical records, this sector had approximately 1,800 employees in 1970, which was less than 3.0% of the state's manufacturing employment base. High-tech employment began to take off in the second half of the 1970s, and by 1980 the number of jobs had swelled to over 6,500. Interestingly, this was a period where significant changes had started to befall the state's stalwart resource industries. For example, from 1979 to 1980 alone employment in the lumber and wood products sector shrank by nearly 4,400, or about 70.0% of that decade's gain. High-tech employment enjoyed moderate growth through the mid-1980s, then took off in the late 1980s. In the three-year period 1988 to 1990, employment jumped by nearly 4,200, which was more than in the previous dozen years. At times this sector seemed to defy gravity. Nationally, over 400,000 electrical and nonelectrical jobs were lost from 1989 to 1991. During this same period, and despite a national recession, Idaho high-tech sector added 2,100 jobs, a growth rate of almost 20.0%. It continued to expand through most of the 1990s. By 1995 it was the state's largest manufacturing employer, accounting for one out every four jobs. Unfortunately, it has not escaped the most recent manufacturing slump; it experienced its first employment decline since 1986 in 1999. The collapse in business investment has also played havoc with this sector. During the second half of the 1990s, U.S. real business investment grew over 10% annually. High-tech investment did particularly well during this period. Fueled by the widespread use of the World Wide Web, the Telecommunications Act of 1996, and Y2K, combined real spending on software, computers, and communications equipment advanced over 25% per year. In response to this strong demand, the output of office and computer equipment rose nearly 40% per year from 1995 to 2000 and the output of electronic components grew about 50% per year. The good times ended in 2001. In that year, real spending on equipment and software declined 4.4%. This put the brakes on office and computer equipment output growth, causing it to slow to just 2.3% in 2001. A local victim of the collapse is Jabil Circuit. The company closed its two-year old Meridian, Idaho manufacturing plant. This move cost an estimated 500 high-tech employees their jobs. The closure is another setback during one of the high-tech sector's most challenging periods. Unfortunately, this is just one in a series of layoffs. The ex-Jabil Circuit employees will join the ranks of the approximately 4,000 other Idaho high-tech employees that have lost jobs during the current downturn. After a devastating year, Idaho's electrical and nonelectrical sector's employment is expected to eke out a modest 1.2% gain this year, grow 7.6% in 2004, 7.9% in 2005, and 8.1% in 2006.

Lumber and Wood Products: Idaho lumber and wood products employment is expected to continue to shrink over the forecast period. This outlook reflects the impacts of long-term trends over short–term cycles. The demand for lumber is not the problem. In fact, the housing industry has remained strong during the recession. What is hurting the industry is the glut of lumber in the market, which has put downward pressure on prices and squeezed profits. The reasons for the excess supply include the strong U.S. dollar, Canadian competition, and the collapse of exports, which have directed more products into the North American market. A structural problem facing this industry is its chronic over capacity. One



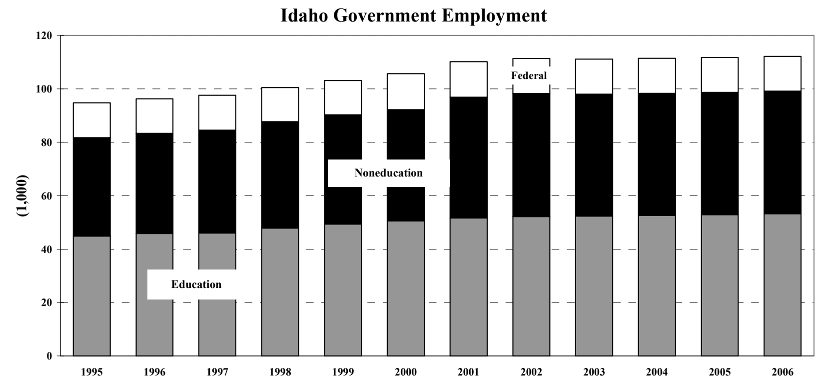
estimate shows this industry is already geared up to produce 20% to 25% more lumber than is being consumed in North America and Canada. As such competition for the lucrative U.S. market has been brutal. The good news is the excess supply will eventually disappear. But the bad news is it will result from the anticipated closure of older and less-efficient mills. There are more challenges. Like most of the region, the health of the Gem State's industry depends on an adequate supply of public timber. Federal records show the amount of timber harvested from federal lands has indeed declined. According to U.S. Department Agriculture, the total amount of timber harvested in Idaho fell from 1.8 million board feet in 1990 to 1.2 billion board feet in 2000, a 31% drop. These data also show that harvests from Idaho national forests fell an astounding 78% over this decade. The toll of this dwindling supply of logs has been high. Approximately 125 jobs were lost when the former Boise Cascade mill in Cascade, Idaho ceased operations in 2001. About 250 jobs were lost last year when the Emmett, Idaho mill was closed. Potlatch shuttered its Jaype Mill near Pierce the previous year, a move that cost about 215 high-paying jobs. Unfortunately, mill closings have become an all-too-frequent occurrence in the West. *Random Lengths* recently reported that there were 337 sawmills, plywood plants, veneer mills, and board mills operating in Oregon, Washington, California, Idaho, and Montana, which was just over half the 663 that were in operation ten years ago. Idaho lumber and wood products employment is forecast to drop from 11,090 in 2002 to 8,915 in 2006.



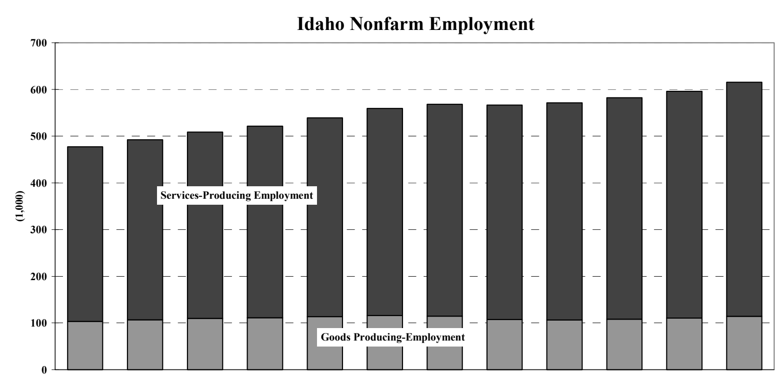
Mining and Chemicals: Like the state's other resource-based sectors, Idaho's mining and chemical industries have struggled recently. The state's mining sector suffered its fifth straight year of employment declines in 2002. After peaking at about 3,100 jobs in 1997 it had less than 1,800 jobs in 2002. Most of the job losses were in the metal mining component, which shed over 1,200 jobs from 1997 to 2002. The state's chemical sector has also fallen on hard times. Most notably, Astaris closed its Pocatello elemental phosphorus plant after more than a half a century of operation. Job cuts had been anticipated even before the October 11, 2001 closure announcement. Last March, the company reported its plan to shut down three of its four production furnaces and was planning to reduce its work force by half (around 200) by June 2002. The approximately 300 remaining employees and several hundred construction workers lost their jobs when plant permanently closed its doors. This type of closure is a major upheaval that sends shock waves through the community where they are located. This is because these companies are often the area's largest employer and have the highest paying jobs. Once these companies close down, they are not easily replaced. Unfortunately, Astaris is not the only Gem State chemical manufacturer to fall on hard times. Kerr-McGee closed its Soda Springs plant due to the low price of vanadium. Idaho mining employment is expected to grow both his year and next, but decline in

2005 and 2006. The Gem State's chemical sectors employment slide that started in 2001 is project to continue through 2006.

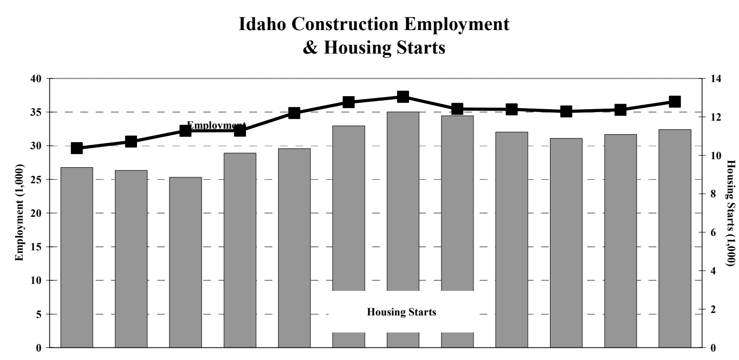
Federal, State, and Local Governments: The anticipated tapering down of Idaho population growth and tight budgets should cause Idaho state and local employment to slow considerably over the forecast period The connection between population growth and government employment is well documented. To see this, one can review the historical record. From 1990 to 2000, Idaho's population jumped 28.5%. Traditionally, population swings of this scale in the Gem State are tied to migration. Bolstered by the state's booming economy, newcomers flocked to Idaho over the last decade. This in-migration tidal wave accounted for two-thirds of the increase in total population. Faced with growing pains that accompanied a fast growing state, all levels of government scrambled to ease the strain on the state's infrastructure. Idaho state and local government employment advanced over 3.5% annually during the first half of the 1990s in response to rapidly expanding needs. As the population growth slowed, governments took the opportunity to catch up. As the pressure from population eases further, the rate of job expansion will slow. But this is just one of the factors affecting employment growth. Local government budget caps will put an upper limit on employment growth. In addition, the tight state budget will also limit government payrolls. As a result of these factors, Idaho state and local government payrolls are expected to decline 0.3% in 2003, then rise 0.3% in 2004, 0.4% in 2005, and 0.5% in 2006. The fate of federal government employment in Idaho is determined by decisions made in Washington, D.C. While federal spending may be boosted, it remains to be seen how it will benefit Idaho. Increased spending on the military and homeland defense should have a limited impact locally because the U.S. military has a relatively small presence in this state. Idaho federal government employment is anticipated to decrease from 13,143 in 2002 to 12,991 in 2006.



Services-Producing Industries: The state's services-producing sector is expected to be the sole source of new jobs in 2003. This is a repeat of what took place last year. In 2002, it is estimated Idaho total nonfarm employment declined 0.3%. This was the net of the 6.2% decline in the goods-producing sector and the 1.2% increase in the services-producing sector. This year, the goods-producing sector is anticipated to retreat 1.1% and the services-producing sector should advance 1.3%. As a result, Idaho total nonfarm employment is projected to rise 0.9% in 2003. The growth of the services-producing sector reflects both cyclical and secular factors. This sector's slower growth since the 2001 recession shows it is not immune from a business downturn. For example, some local call centers have been temporarily closed due to lack of business. However, it has fared well compared to the state's goods-



producing sector. This reflects the nature of the recession. While most recessions are consumer driven, the 2001 recession resulted from a collapse in business investment. This has taken a heavy toll on the state's high tech companies. In addition, the state's natural resource industries have been reeling for several years. Thus, the services-producing sector was less vulnerable to the recession. Long-term changes present a brighter future for this important sector. Traditionally, the goods-producing sector determined the short–term fortunes of the services sector. For example, local implement dealers suffered if farmers fell on hard times. Automobile dealerships can trace their most prosperous times to when high-tech manufacturers handed out bonus checks to their employees. Of course, the roles of the goods-producing and services-producing sectors sometimes overlap. For example, construction is classified as a goods-producing activity, but clearly instead of being a primary driver of economic activity, its performance is largely driven by activity in other sectors. As the economy evolves, services-based industries are becoming less dependent on other industries. Instead of being driven by basic economic activity, they have become the drivers. An example of this trend is the growing number of call centers in Idaho. The call centers are involved in a wide range of activities including sales, help lines, telemarketing, customer services, and market research. Call centers also include a wide variety of business sectors. These include manufacturing, transportation, communications, trade, finance, insurance, business services, and research and development. These companies have flourished in Idaho because new technology frees companies from being located near their markets. Instead, they are drawn to Idaho because of its high quality labor force. This has created opportunities in the Gem State that a few years ago would have seemed impossible. For example, Dell Computer recently opened a new service center in Twin Falls, Idaho, although the company is based in Texas. In another example, landlocked Boise is the home to a Japanese shipping company's scheduling operations. Although the connection between goods- and services-producing sectors have blurred, they have not been severed. In fact, in some cases they have even been reinforced. For example, some manufacturers employ temporary employees to meet peak production. As a result, their numbers wax and wane with the manufacturers' business cycle. These workers are often employed by employment services, so they are classified as service employees rather than manufacturing employees. Another trend affecting service employment is the increasing presence of national "big-box" merchandisers in the Gem state. During the 1990s, many Idaho communities' populations achieved the critical mass that attracted these companies. Recent openings by such industry giants as Fred Meyer, Home Depot, and Wal-Mart have provided employment opportunities in both urban and rural communities. Services-producing employment is projected to increase 1.3% in 2003, 1.9% in 2004, 2.4% in 2005, and 3.3% in 2006.



Construction: Idaho's job creation engine will be short an important piston over the next few years. During the state's long economic expansion, construction employment has grown at an above-average pace. From 1988 to 2001, construction employment advanced an average of 7.5% per year, which made it one of the state's fastest growing sectors. At this pace, the level of employment nearly tripled from just fewer than 14,000 to 37,537. This stellar growth was largely fueled by the strong demand for housing that was caused by strong in-migration into the Gem State. Housing starts surged from about 3,300 units in 1988 to nearly 12,800 units in 1994. Housing starts did settle down to about 9,400 units in 1995. Since then, total housing starts have hovered in the 9,000- to 11,000-unit range. Nonresidential construction also deserves credit for this sector's strong showing. Projects such as the Boise Towne Square Mall and the rebuilding of downtown Boise's infrastructure helped boost employment during the early years of the boom and provided an important cushion when housing starts dropped in 1995. Given the cooling economy, strained state and local government budgets, and slower population growth, both residential and nonresidential building are not expected to match their earlier strong performances. On the bright side, neither is construction projected to suffer a bust. One of the reasons for this is the state's demand and supply for housing is not as far out of balance as in other states. This is because Idaho builders were in catch-up mode during most of the expansion period. Thus, the state never developed a significant housing inventory surplus. Idaho housing starts are expected fall this year and next, then recover gradually in 2005 and 2006. Idaho construction employment is forecast decline 0.2% in 2003, 0.9% in 2004 and rise 0.7% in 2005 and 3.4% in 2006.

ALTERNATIVE FORECASTS

Global Insight has assigned a 55% probability of occurrence to its December 2002 baseline forecast of the U.S. economy. The major features of this forecast includes:

- Real GDP increases 2.4% in 2002, 2.9% in 2003, 4.5% in 2004, 3.7% in 2005, and 3.4% in 2006;
- U.S. nonfarm employment declines 0.8% in 2002, advances 0.8% in 2003, 2.5% in 2004, 1.9% in 2005, and 1.2% in 2006;
- annual average U.S. civilian unemployment peaks at 5.9% in 2003 and falls gradually to 5.1% by 2006;
- the consumer confidence index bounces between 90 and 97 over the forecast period;
- consumer inflation is 1.6% in 2002 and averages less than 2.5% thereafter;
- the federal government deficit peaks in 2004;
- and the current balance deficit swells to $731 billion by 2005.

While the baseline forecast is the most probable, other outcomes are also possible. The alternative scenarios considered here diverge in opposite directions from the baseline forecast. In the first, the economy performs better than in the baseline. In the second, the economy falls short of the baseline's showing. One of the biggest concerns is the economy will slip into a double-dip recession. Global Insight has been steadfast in its opinion this will not occur. While in the Pessimistic Alternative economic growth is slower than in the baseline case, the economy does not decline. Both alternatives and their impacts on the Idaho economy are discussed below.

OPTIMISTIC SCENARIO

The U.S. economy is in a funk. But it is also close to coming out of that funk. The *Optimistic Scenario* explores the impacts a few favorable factors would have on the economy's direction. It has been assigned a 15% probability of occurrence. This scenario assumes the U.S. economy gets a boost from several sources. Rest-of-the-world growth is 0.5-percentage point higher than in the baseline. The rebound in capital spending, particularly on equipment is also stronger. Consumer sentiment is higher in this scenario, which lifts consumer spending above its baseline counterpart. Fiscal policy is also more accommodating, with an assumed cut to corporate taxes that boost businesses confidence.

As a result of these factors, GDP grows twice as fast in the last quarter of 2003 compared to the baseline (1.2% versus 0.6%). Instead of languishing through the first half of this year like in the baseline, the economy springs back to life in the first quarter of 2003. It posts four straight quarters of 4.0%-plus growth. This translates to 3.8% annual growth from 2002 to 2003, which is significantly higher than the baseline's 2.9% real GDP growth. Growth is stronger in all sectors: consumer spending, exports, and business investment. After this year, real GDP advances 4.6% in 2004, 3.3% in 2005, and 3.1% in 2006. In the *Baseline Scenario*, Real GDP rises 4.5% in 2004, 3.7% in 2005, and 3.4% in 2006.

The stronger U.S forecast brightens the prospects for Idaho's economy, especially in the short term. In the *Baseline Scenario* the Gem State's nonfarm employment increases just 0.9% in 2003 and 1.9% in 2004. In the *Optimistic Scenario*, this same measure rises 1.3% this year and 2.3% next year. By 2004, Idaho nonfarm employment is expected to be 587,4000, which is about a percent higher than the

IDAHO ECONOMIC FORECAST
CURRENT AND ALTERNATIVE FORECASTS
JANUARY 2003

	BASELINE					OPTIMISTIC					PESSIMISTIC				
	2002	2003	2004	2005	2006	2002	2003	2004	2005	2006	2002	2003	2004	2005	2006
GDP (BILLIONS)															
Current $	10,444	10,969	11,744	12,447	13,114	10,448	11,081	11,899	12,565	13,171	10,443	10,740	11,490	12,234	12,916
% Ch	*3.6%*	*5.0%*	*7.1%*	*6.0%*	*5.4%*	*3.6%*	*6.1%*	*7.4%*	*5.6%*	*4.8%*	*3.6%*	*2.8%*	*7.0%*	*6.5%*	*5.6%*
1996 Chain-Weighted	9,435	9,707	10,142	10,516	10,873	9,438	9,793	10,243	10,585	10,912	9,433	9,527	9,978	10,388	10,759
% Ch	*2.4%*	*2.9%*	*4.5%*	*3.7%*	*3.4%*	*2.4%*	*3.8%*	*4.6%*	*3.3%*	*3.1%*	*2.4%*	*1.0%*	*4.7%*	*4.1%*	*3.6%*
PERSONAL INCOME - CURR $															
Idaho (Millions)	33,891	35,387	37,436	39,591	42,011	33,895	35,680	37,929	39,998	42,253	33,890	34,931	36,680	39,020	41,461
% Ch	*4.2%*	*4.4%*	*5.8%*	*5.8%*	*6.1%*	*4.2%*	*5.3%*	*6.3%*	*5.5%*	*5.6%*	*4.2%*	*3.1%*	*5.0%*	*6.4%*	*6.3%*
U.S. (Billions)	8,944	9,362	9,956	10,550	11,131	8,946	9,453	10,107	10,682	11,213	8,943	9,211	9,713	10,358	10,950
% Ch	*3.0%*	*4.7%*	*6.4%*	*6.0%*	*5.5%*	*3.0%*	*5.7%*	*6.9%*	*5.7%*	*5.0%*	*3.0%*	*3.0%*	*5.5%*	*6.6%*	*5.7%*
PERSONAL INCOME - 1996 $															
Idaho (Millions)	30,507	31,208	32,241	33,375	34,744	30,510	31,429	32,577	33,642	34,936	30,507	30,831	31,715	33,019	34,407
% Ch	*2.8%*	*2.3%*	*3.3%*	*3.5%*	*4.1%*	*2.8%*	*3.0%*	*3.7%*	*3.3%*	*3.8%*	*2.8%*	*1.1%*	*2.9%*	*4.1%*	*4.2%*
U.S. (Billions)	8,051	8,256	8,575	8,894	9,206	8,052	8,327	8,681	8,984	9,272	8,050	8,130	8,398	8,765	9,087
% Ch	*1.6%*	*2.6%*	*3.9%*	*3.7%*	*3.5%*	*1.6%*	*3.4%*	*4.3%*	*3.5%*	*3.2%*	*1.6%*	*1.0%*	*3.3%*	*4.4%*	*3.7%*
TOTAL NONFARM EMPLOYMENT															
Idaho (Thousands)	566.5	571.4	582.0	595.8	615.4	566.5	574.0	587.4	600.2	618.3	566.5	567.1	573.6	590.1	610.6
% Ch	*-0.3%*	*0.9%*	*1.9%*	*2.4%*	*3.3%*	*-0.3%*	*1.3%*	*2.3%*	*2.2%*	*3.0%*	*-0.3%*	*0.1%*	*1.1%*	*2.9%*	*3.5%*
U.S. (Millions)	130.8	131.9	135.1	137.7	139.5	130.8	132.5	136.1	138.4	139.7	130.8	130.7	133.2	136.4	138.5
% Ch	*-0.8%*	*0.8%*	*2.5%*	*1.9%*	*1.2%*	*-0.8%*	*1.2%*	*2.7%*	*1.7%*	*0.9%*	*-0.8%*	*-0.1%*	*2.0%*	*2.4%*	*1.5%*
GOODS PRODUCING SECTOR															
Idaho (Thousands)	107.5	106.3	108.0	110.5	114.1	107.5	107.2	109.5	111.3	114.3	107.5	104.7	105.9	109.2	113.4
% Ch	*-6.2%*	*-1.1%*	*1.6%*	*2.3%*	*3.3%*	*-6.2%*	*-0.3%*	*2.2%*	*1.6%*	*2.7%*	*-6.2%*	*-2.6%*	*1.1%*	*3.1%*	*3.9%*
U.S. (Millions)	23.8	23.4	23.6	24.0	24.3	23.8	23.6	24.1	24.5	24.4	23.8	23.1	22.9	23.4	23.8
% Ch	*-4.4%*	*-1.7%*	*0.8%*	*1.6%*	*1.1%*	*-4.4%*	*-0.9%*	*2.1%*	*1.4%*	*-0.1%*	*-4.4%*	*-3.2%*	*-0.8%*	*2.2%*	*1.9%*
SERVICE PRODUCING SECTOR															
Idaho (Thousands)	459.1	465.1	474.0	485.4	501.3	459.1	466.9	477.8	488.9	504.0	459.0	462.4	467.8	480.9	497.2
% Ch	*1.2%*	*1.3%*	*1.9%*	*2.4%*	*3.3%*	*1.2%*	*1.7%*	*2.3%*	*2.3%*	*3.1%*	*1.2%*	*0.7%*	*1.2%*	*2.9%*	*3.4%*
U.S. (Millions)	107.0	108.4	111.5	113.7	115.2	107.0	108.8	112.0	114.0	115.2	107.0	107.6	110.3	113.0	114.6
% Ch	*0.0%*	*1.4%*	*2.8%*	*2.0%*	*1.3%*	*0.0%*	*1.7%*	*2.9%*	*1.8%*	*1.1%*	*0.0%*	*0.6%*	*2.6%*	*2.4%*	*1.5%*
SELECTED INTEREST RATES															
Federal Funds	*1.7%*	*1.7%*	*3.3%*	*4.2%*	*4.9%*	*1.7%*	*1.7%*	*3.3%*	*4.2%*	*4.9%*	*1.7%*	*1.2%*	*2.6%*	*3.9%*	*4.8%*
Bank Prime	*4.7%*	*4.7%*	*6.3%*	*7.2%*	*7.9%*	*4.7%*	*4.7%*	*6.3%*	*7.2%*	*7.9%*	*4.7%*	*4.2%*	*5.6%*	*6.9%*	*7.8%*
Existing Home Mortgage	*6.5%*	*6.3%*	*7.5%*	*7.8%*	*7.8%*	*6.5%*	*6.3%*	*7.5%*	*7.7%*	*7.7%*	*6.5%*	*6.2%*	*7.1%*	*7.7%*	*7.8%*
INFLATION															
GDP Price Deflator	*1.2%*	*2.1%*	*2.5%*	*2.2%*	*1.9%*	*1.2%*	*2.2%*	*2.7%*	*2.2%*	*1.7%*	*1.2%*	*1.8%*	*2.2%*	*2.3%*	*1.9%*
Personal Cons Deflator	*1.4%*	*2.1%*	*2.4%*	*2.2%*	*1.9%*	*1.4%*	*2.2%*	*2.6%*	*2.1%*	*1.7%*	*1.4%*	*2.0%*	*2.1%*	*2.2%*	*2.0%*
Consumer Price Index	*1.6%*	*2.3%*	*2.5%*	*2.4%*	*2.2%*	*1.6%*	*2.4%*	*2.7%*	*2.3%*	*2.0%*	*1.6%*	*2.3%*	*2.2%*	*2.3%*	*2.2%*

Forecast Begins the THIRD Quarter of 2002

baseline's 582,000. After 2004, the situation reverses itself, and nonfarm employment grows marginally faster in the *Baseline Scenario* than in the *Optimistic Scenario*. However, this late push does not offset the *Optimistic Scenario's* early strength. As a result, Idaho nonfarm employment in 2006 is about 3,000 higher than in the *Baseline Scenario*. Idaho real personal income displays a similar growth pattern. Namely, in the *Optimistic Scenario* it advances faster than its baseline counterpart in 2003 and 2004, but is slightly slower in the last two years of the forecast. As was the case with nonfarm employment, this results in the level of Idaho personal income being higher in 2006 in the *Optimistic Scenario*.

PESSIMISTIC SCENARIO

This scenario has been assigned a 30% probability of occurrence. Consumer spending has kept the recession mild, but the slow recovery is testing their patience. This scenario explores the impacts if consumers have a crisis of confidence. There are several factors that could cause this. Household budgets are stretched thinner than ever, and credit problems are on the rise. The housing market shows signs of cooling off. This alternative assumes this causes the housing bubble to burst. Consumer confidence also suffers when Congress fails to reinstate the extension of unemployment benefit and fails to agree on tax reduction. This causes real GDP to be stagnant in the last quarter of 2002 and the first quarter of 2003. In the second quarter of 2003, real GDP declines 1.6%.

What finally comes to the economy's rescue is time. Inventories are at bare bones levels and companies have returned to profitability. In 2004, both consumers and businesses make up for lost time. Vehicle sales surge and investment in equipment and software climbs at a double-digit pace. Manufacturing gets a double boost from the pick up in demand and the need to rebuild inventories. The spending spree slows in 2005, but by then the private sector is propelling growth and the unemployment rate is back down to 5.5%. Real GDP rises 1.0% in 2003, 4.7% in 2004, 4.1% in 2005, and 3.6% in 2006.

The slower recovery in the *Pessimistic Scenario* deals the Idaho economy a blow from which it does not recover. The difference between this forecast and the baseline forecast is especially noticeable this year and next. In both years, Idaho nonfarm employment grows 0.8-percentage point slower than in the baseline. But nonfarm employment does grow faster than in the baseline in 2005 and 2006. In 2006, Idaho nonfarm employment is about 5,000 less than in the *Baseline Scenario*. Idaho real personal income also grows slower in 2003 and 2004 and faster in 2005 and 2006. In the last year of the forecast, Idaho real personal income is $34.4 billion, which is $300 million lower than the baseline's $34.7 billion.